

**Transcript of USD(AT&L) Carter Remarks
Navy League Sea-Air-Space Exposition
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Thank you very much. I want to thank Dan Branch for the privilege of being here today, thank all of you for being here, and thank all of you for what you do, government and industry together. You are what makes our Navy and our Marine Corps the greatest in the world, and so I thank you and salute you. It's a real privilege for me to work with Secretary Mabus, Admiral Roughhead, General Conway, Under Secretary Work, and my good friend, from whom I've learned so much, Assistant Secretary Stackley, who is so capable that when he comes into the conference room, the lights dim. It's a rare privilege to work with such a talented and dedicated group of people.

I'm going to make some remarks, and then I told Dan that I'd take some questions. I don't know how you propose to do that, but I always get a little nervous when audience members pass notes up to the front, because I'm reminded of Khrushchev's secret speech to the Supreme Soviet in 1953. It turns out that the CIA stole, somehow, the transcript of Khrushchev's speech, so this particular incident was known to the U.S. side. In the course of giving this speech, which was denouncing the crimes of Stalin, a note was passed to the front. Khrushchev opens it up, reads it and he says, "Comrades, let me read you the note I just received. It says, "Comrade Khrushchev, when things were going on, where were you?" Khrushchev pauses a moment and then asks, "Would the author of this note please identify himself?" No hands go up. He pauses a moment, and then he says, "That, comrades, is the answer to your question."

Well, following Secretary Gates in a program is always a tough act. The only thing I can say is that preceding him, especially during budget season, can prove fatal if you haven't done your homework. You might end being the defense reform item of the day. So I am pleased to be following him today.

In his remarks, Secretary Gates homed in on the central challenges that our Navy and Marine Corps – and all of our armed forces, for that matter – must ultimately confront as we look to make balanced investments in our forces in an increasingly complex security environment. And in a moment, I'd like to return to some of those themes and examine them from my vantage point as Under Secretary of Defense for Acquisition, Technology and Logistics.

But first, I'd like to take this opportunity to salute the Navy and the Marine Corps for your service in operations worldwide, and especially in Afghanistan during this critically important fighting season. I always say this when I speak to a group: when Secretary Gates hired me last January 5th, he said to me – as he has said publicly – “The troops are at war, but the Pentagon is not.” And then he said, “I don’t want you to be like that.” And so I have made it a daily responsibility in my position to be attentive to supporting the troops, and obviously the Navy and the Marines are engaged in all the ways that you would expect in Afghanistan, and the Marines heavily and decisively in RC-South. But let me mention some ways you might not fully appreciate.

First, it’s the Marine Corps that has spearheaded the MRAP, a true example of rapid, responsive acquisition. There are now almost 26,000 MRAPs built or under contract. We will be fielding more than 1,000 per month in Afghanistan this summer due to truly heroic efforts by the acquisition, logistics, and training communities. I was visiting with three soldiers last weekend at Walter Reed who are alive because of the MRAP, and you can do that any weekend at Walter Reed.

I also want to single out Navy support for countering improvised explosive devices (IEDs). In my role as co-chair of Secretary Gates’ Counter IED Senior Integration Group, I have come to appreciate the leading role that Department of the Navy units are playing: EOD forces and expertise to find and clear IEDs, electronic warfare to defeat triggering mechanisms, and forensic analysis of IED residue to backtrack to the networks of IED builders and emplacements to attack them. These are just some examples of distinctive contributions from the Navy. So, every day, I and my partner, Joint Staff Director of Operations (J-3) Marine LTG Jay Paxton, see the Navy and Marines Corps saving lives and enabling the COIN mission in Afghanistan by defeating this IED threat. It’s a wonderful thing to see.

Secretary Gates posed three questions yesterday. First, what kind of qualities should the maritime services encourage in a new generation of leaders? Second, what new capabilities will our Navy-Marine Corps team need, and which ones will potentially be made obsolete? And third, how can we be sure that our procurement plans are cost-effective, efficient, and realistic? Each of these questions merits a detailed discussion, but I’d like to spend the balance of my time addressing this third question from several perspectives. First, the value equation: how we can ensure that the American taxpayer and Warfighter get the best business deal for each defense dollar we spend? How can we restore affordability to our investments? Second, the industrial base: how can we leverage the capacity of our industrial base most effectively to meet our operational

needs? And third, and ultimately most important, people: how can we ensure that we recruit and retain the best and the brightest civilian and uniform acquisition professionals?

With respect to value, the challenge is how to modernize our forces responsibly, balance a set of competing but mutually interdependent priorities, and do so within a realistic set of cost constraints. This is an urgent undertaking. I was at the “Last Supper” with Norm Augustine, but also with Deputy Secretary Bill Perry, John Deutch, and others, and it was Norm Augustine’s law of economic disarmament that we had to keep in our minds: “In the year 2054” – which is now approaching – “the entire defense budget will purchase just one aircraft.” That was Augustine’s law.

Getting better value by scrutinizing our costs, scrutinizing our business arrangements, scrutinizing our contracts, scrutinizing our ponderous processes – is not only a clear priority of this Secretary of Defense, it’s also a priority of President Obama, who mentions it frequently, and of the Congress, which passed last year unanimously the Weapon Systems Acquisition Reform Act.

Getting better value is also, frankly, an imperative. We expect the defense base budget to continue to grow in real terms, but not at the double-digit levels of the immediate post-9/11 years. During those years, money was available when programs ran into an execution problem. Money was available when tough decisions needed to be made between the military utility of an additional increment of capability and the cost that increment would add to a program. Money was available for exquisite capabilities lacking, to use Secretary Gates’s words, “the maximum flexibility to deal with the widest range of scenarios and adversaries.” Money was available when difficult business decisions were needed. The result is that we all fell into some bad habits – government and industry – and we now must re-learn the discipline of affordability. Now we need to deliver the needed program— for the same amount of money or less.

Now the Department has many ways to improve how we deliver value to the taxpayer and Warfighter, and the most powerful is competition. To enjoy the fruits of true competition, we sometimes have to be creative about tapping into it. This was the case with the Littoral Combat Ship, where we decided to change our approach to competition. The new acquisition strategy lays out an ongoing plan of true competition and avoids a pattern of directed buys that some confuse with true competition. By the way, just such a pattern of incomplete competition is one of the reasons that the Department has decided not to pursue an extra engine for the Joint Strike Fighter,

because there is not a good analytical case that the very real up-front costs of an extra engine would ever be paid back in the competition that some hypothesize.

A second important way to improve value to the taxpayer and Warfighter is by accurately estimating and aggressively controlling costs. The Joint Strike Fighter is a good example of this. JSF is the backbone of U.S. combat air capability for the next generation, and critically important to the Navy and the Marines, as well as to the Air Force and various international partners. The key to success in the JSF program is, and must be, affordability. Therefore, when the Joint Estimating Team's (JET's) independent cost estimate and other analyses of JSF that were conducted last summer indicated to us last fall that JSF costs were growing, Secretary Gates took firm action to restructure the program: he directed a number of actions to restore the test schedule, upgraded the government program management to a three-star level, and directed that the budget and production ramp be adjusted to reflect the results of the independent cost estimate. Above all, he insisted that we and our industrial partners restore affordability to the program. We are determined to do so.

In this connection, I want to make a point about independent cost estimates, which the Weapon Systems Acquisition Reform Act wisely required the Department to perform – and to heed – to a wider extent than we have done in the past. Now the independent cost estimate describes what a program will cost based upon its performance to date and historical precedent. It can therefore provide a useful counterpoint to the program office's estimate and the contractor's estimate, both of which are usually bottom-up, in terms of methodology, and success-oriented, as you would expect from proud performers of the work. By comparing the independent cost estimate – its “will cost” forecast – to the program estimate, we can see what is driving cost, and thus how to take managerial action to lower cost. The result might be termed a “should cost” analysis as opposed to a “will cost” analysis. “Will cost” indicates what we will pay without managerial attention; “should cost” is what we will pay if we aggressively work to control costs, as we should do for the Warfighter and the taxpayer. We will be relentlessly pursuing affordability in the “should cost” sense in the JSF and all our other programs, including shipbuilding, to remove unnecessary cost. This is a good practice for the taxpayer and Warfighter, and also for our industrial partners.

A third way to control costs is to do rigorous engineering trades to balance required capabilities against cost at the beginning of a program and throughout its lifetime. This is one of the purposes of the Navy's excellent Gate Review process. The cancelled VH-71 program was an example of how not amending requirements in the face

of technical and cost realities can lead to failure. The Navy is now embarked in a rigorous scrub of the requirements for the Ohio SSBN replacement class submarine. This rigor will be needed to ensure that we have a capable, but also affordable, future nuclear deterrent.

Finally, a fourth way we are seeking better value for the taxpayer and Warfighter is through thoughtful extension of the use of fixed-price contracting. Fixed-price vehicles are appropriate when both sides of the transaction know what they are doing: the government knows what it wants and is holding its requirements stable, and the manufacturer has a stable and predictable production process whose cost is under control. We are challenging our government acquisition officials to show the former kind of stability, and challenging our industry partners to perform to that standard, and back up that stability with a fixed-price offering. Once again, the Joint Strike Fighter, as it transitions from development to production, is a good example of this method of pursuing the value equation.

Let me say something about industrial base issues. We'd have no programs, and no value at all, without private industry. That is how we arm ourselves in this country. And as I stress to my industry partners, therefore, we in the Department have to take industrial base matters seriously. And we do. The key here is not to focus on jobs per se, but on skills – critical skills that, if left to atrophy, would be difficult to replace or that, because of their unique military nature, cannot be found in the larger global commercial technology base.

The shipbuilding industrial base is a special case, presenting unique challenges and also great opportunities for value, and I know the Navy is thinking hard about it. The wide-diameter solid rocket motor industrial base supports our sea-based and land-based nuclear deterrent, but otherwise has a small market. We will need to manage our needs and programs accordingly, and so will our industry partners. The stealth technology base supports the Navy and the Air Force with high and unique skill sets. It will be needed as the Department decides upon the so-called Family of Systems for next-generation long range and prompt strike, persistent ISR, electronic attack – manned and unmanned, standoff and stand-in, expendable and reusable. All of those missions looked at in one frame is what we refer to as the Family of Systems, and as we make those decisions, the health and contributions of that portion of our industrial base will be uppermost in our minds.

Last, I want to say something about people. Good people are essential elements of any successful acquisition reform strategy. In fact, I'd go so far as to say that no amount of moving around and fiddling with the process and so forth, as so many want to do, will have any effect – compared to the effect that good people can have. We are on track to meet growth targets for rebuilding the civilian acquisition workforce in FY2010 and beyond - but I want to make clear that it is not purely a numbers game. The quality of our workforce is paramount, and we are pleased at being able to attract talent to government with the argument that matters most – that an applicant, by joining the government, can do something that really matters, provide national security, and serve his or her country. Again and again and again, we find that's our hook. That's why you all do what you do. And we, the government, can't offer as much money, our buildings aren't made of steel and glass, and our cafeterias don't have good food, but the mission— that's what hooks people. We are committed to improving both the civilian and the uniform acquisition workforces. We are strongly encouraging the services to look at promotion rates, to review the institutional basis for the jobs that will allow an O-5 or an O-6 with acumen in acquisition to look up that cone and see leadership positions that he or she can occupy in their service by developing their acquisition skills.

Finally, we are looking to sustain and build the institutions that quality people will inhabit – the engineering and product centers, contracting and pricing shops, and commands within government, and the critical not-for-profit FFRDCs and UARCs that provide critical technical support to government. And last, of course, the industrial base, which I mentioned previously.

All of this is an enormous agenda set by Secretary Gates, by your Navy leadership, and, above all, by the circumstances in which we find ourselves – one of complex and changing threats and a large, but surely finite, budget. I look forward to working with all of you on these challenges. Thank you.